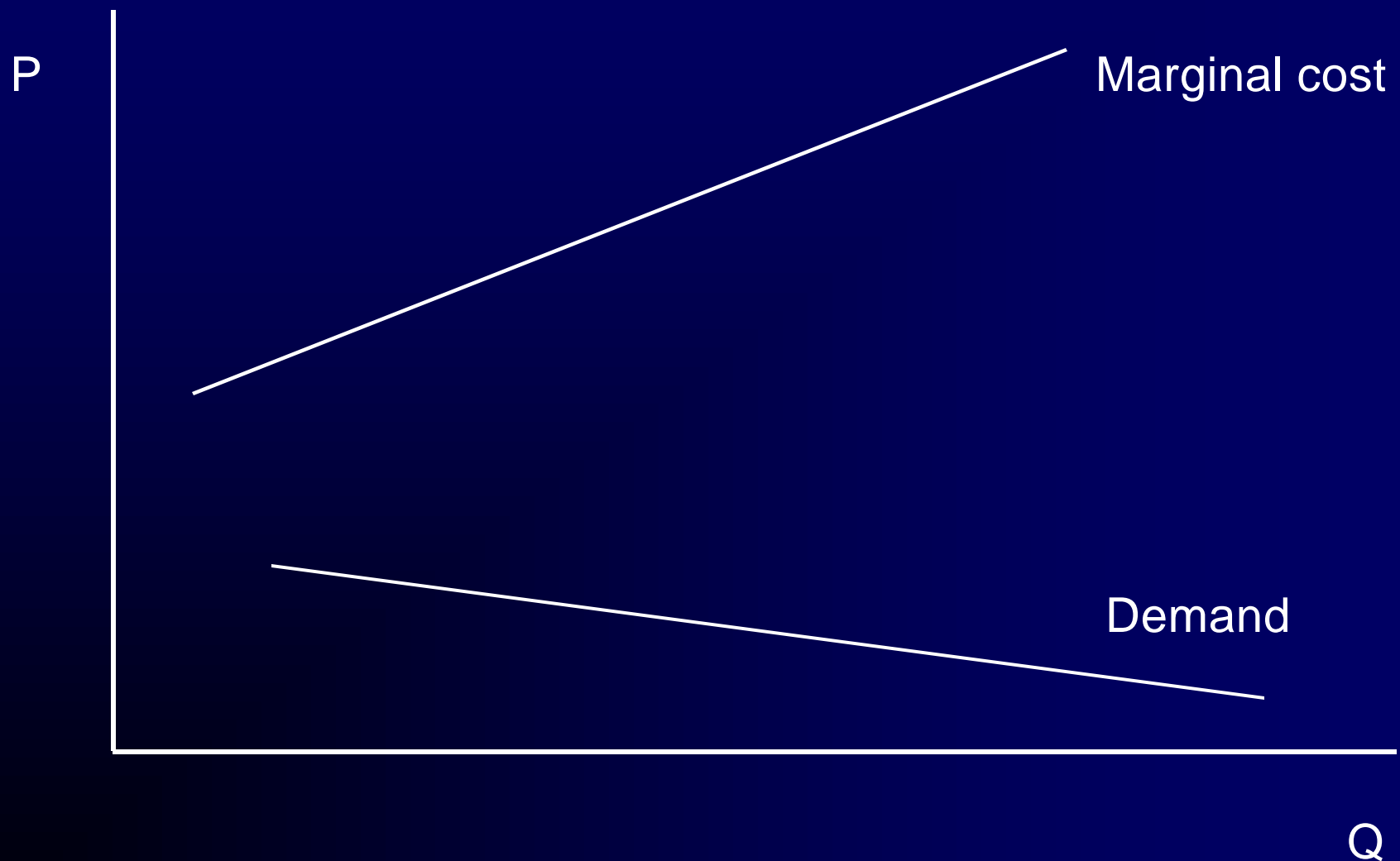


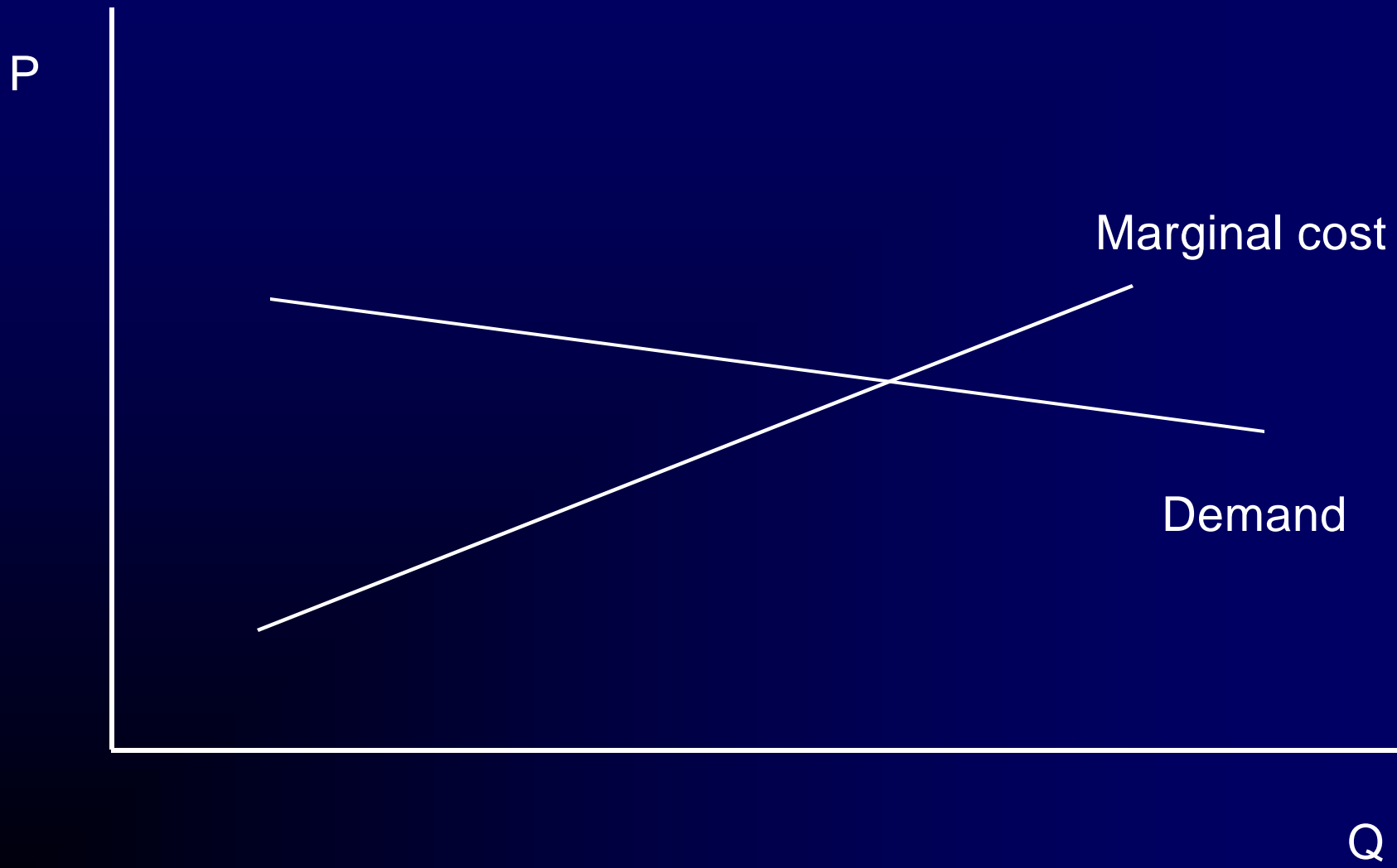
THE MARKET FOR CARBON SEQUESTRATION: HOW REAL, HOW SOON, AND HOW VALUABLE FOR FARMERS?

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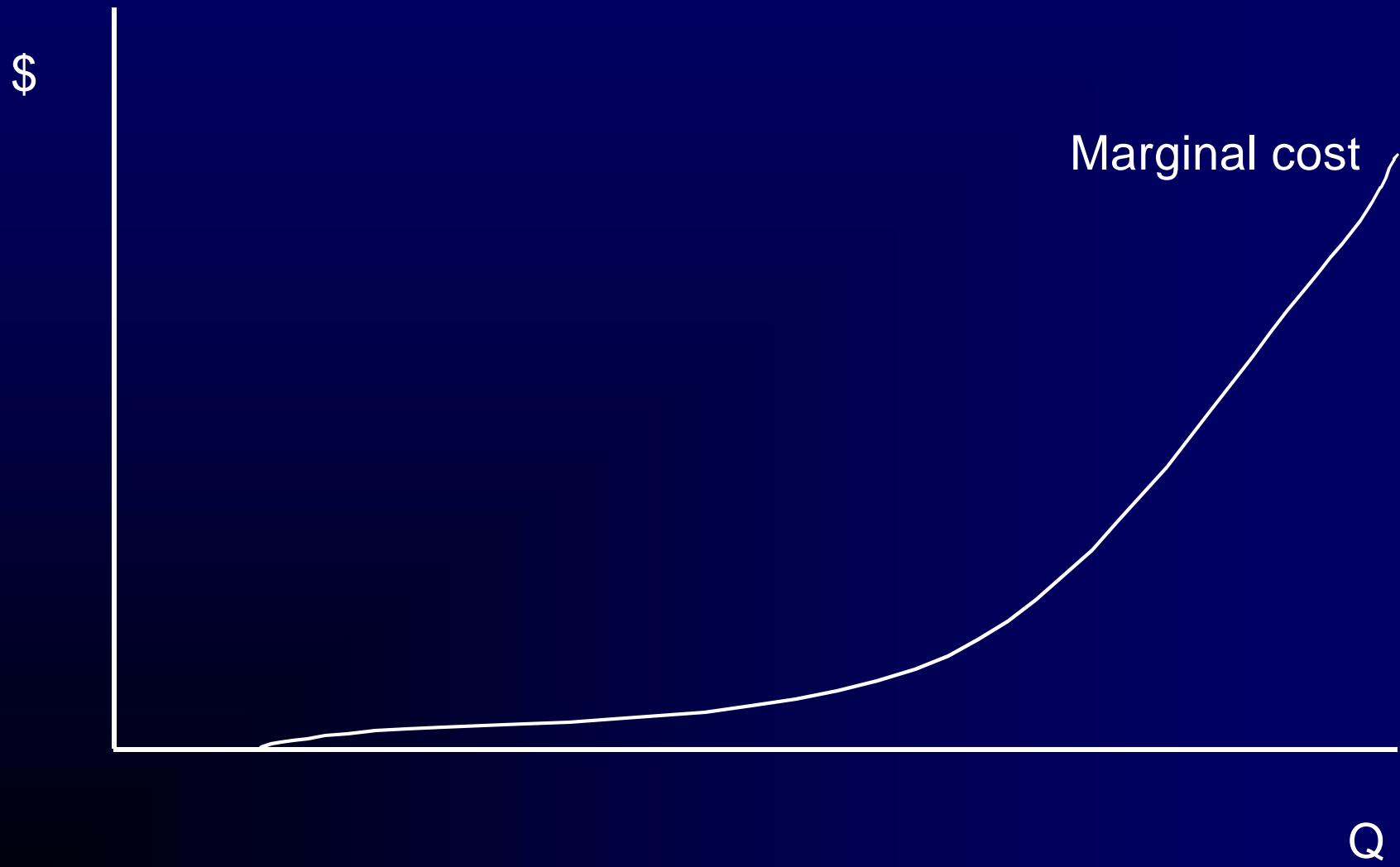
No Viable Market: Willingness to Pay Too Low



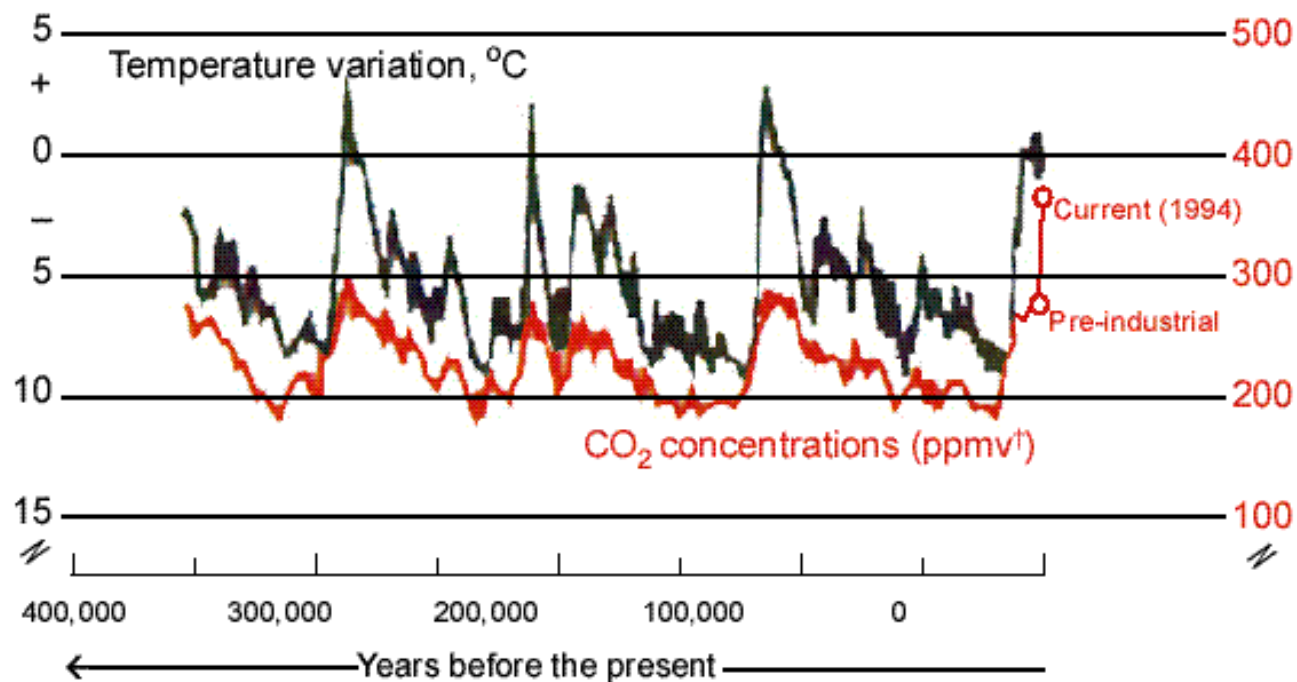
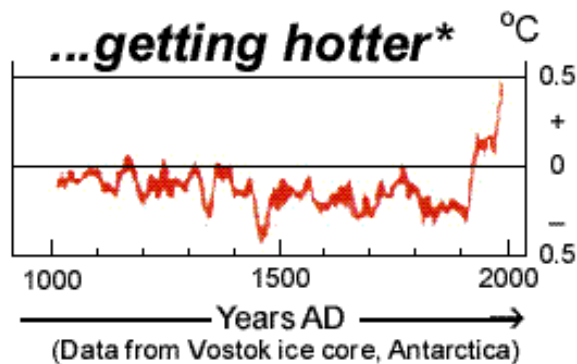
Viable Market: Willingness to Pay Higher, Marginal Cost Lower



Marginal Cost of Supplying Reductions in Greenhouse Gases



Hot...



[†] Parts per million volume

*Variation in surface temperature of northern hemisphere

Sources: CDIA C, Oak Ridge National Laboratory; OECD



Four Sources of Demand

- Ratified international treaty to reduce greenhouse gas emissions.
- Carbon friendly farm bill.
- Unilateral initiative by the new administration.
- Production of “atmospheric neutral” products.

Ratified International Treaty

- Given the lack of progress of current negotiations and sentiment in U.S. Senate, outlook is dim.
- But unratified treaty could drive demand today if:
 - Countries were told which practices will eventually count towards meeting reduction goals.

Farm Policy Demand

- Does Congress need “public good” justification for farm income support?
- Provision of environmental goods is one justification.

Added Benefit of Farm Policy Demand

- Inducing farmers to sequester carbon would demonstrate the feasibility of using carbon sinks.
- Increase the likelihood that sinks will be eventually counted.

Unilateral Reduction in U.S. Emissions

- Why do it?
 - Put other major emitters on the defensive
 - Break the negotiation log jam'
 - Unilaterally accept carbon sinks as valuable
 - Demonstrate the feasibility of trading schemes

Unilateral Reduction in U.S. Emissions

- Disadvantages
 - Many Americans don't think we need to cut emissions at all.
 - Ill-conceived program could be costly.

Demand for Atmospheric Neutral Products

- Will demand for green products grow?
- Need a “poster child” event to drive demand.
- But even though climate change is geologically rapid, it is media-event slow.

Conclusions

- Outlook for carbon markets uncertain.
- Agriculture has the potential to generate large amounts of carbon credits, but demand is not likely to be large, unless
 - Negotiations result in a list agriculture activities that will “count”
 - Congress needs an environmental farm bill
 - Administration decides to act unilaterally.